Agenda Item 2

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SOME IMPLICATIONS OF THE WORLD COMPANY
by George W. Ball

I propose to approach the subject of the "internationalization of business" by considering what I shall arbitrarily call the "world company." This terminology seems to me more descriptive and less awkward than such expressions as the "international" or "multinational" corporation or company.

A "world company," as I use the term, is a corporation, organized under the laws of a domiciliary country, that characteristically engages in some industrial activity or activities and that meets two standards:

First, it does business all over the world - or at least in substantially all non-Communist areas - obtaining its capital and procuring its raw materials wherever they are available under the most advantageous conditions, producing wherever its goods can be most efficiently manufactured, and selling its products in all the markets of the world; and

Second, the management of the world company shapes its policies not in terms of national economies but of the overall world economy.

As thus defined, the world company is perhaps more archetypal than real, but more and more corporations are approaching the prescribed standards and there will be even more tomorrow, since the evolution of the world company responds to needs that are every day becoming more acute. At a time when the demand for goods of every kind is multiplying almost at a geometric rate while world resources

remain finite, we must find the means to use those resources with a maximum of efficiency and a minimum of waste or face a Malthusian debacle on a global scale. It is to this end that the world company makes its unique contribution, by enabling men for the first time in history to deploy resources freely throughout the world in accordance with principles of comparative advantage measured by the objective standard of profit.

I

The inarticulate premise of the world company is that the political boundaries of nation states are too narrow and constrictive to provide adequate scope for modern world economic activities. In a thoroughly pragmatic spirit businessmen have improvised the institution they need to shake free from strangling political impediments. To serve the global activities of modern business they have exploited and extended the fiction of the corporation - that artificial person which lawyers invented so that entrepreneurs could do business with limited liability and could thus mobilize capital from diverse financial sources.

Originally the corporation was conceived as a privilege granted by the state to serve its own political purposes, but over the years the widespread acceptance of the institution has enabled giant corporations to roam the world with substantial freedom, producing and selling their goods in a multiplicity of national markets, and begetting corporate offspring of various nationalities in unlimited numbers.

Today we are just beginning to realize the potential of this emancipated corporate person. For more than half a century a handful of great companies have

bought, produced and sold goods around the world. But since the Second World War their number has multiplied manyfold. Today a large and rapidly expanding roster of companies is engaged in transforming the raw materials produced in one group of countries with the labor and plant facilities in others to manufacture goods it can sell in third country markets - and, with the benefit of instant communications, quick transport, computers and modern managerial techniques, is reshuffling resources and altering the pattern on almost a month-to-month basis in response to shifting costs, prices and availabilities.

In these terms the world company provides mankind with an instrument of high value. Our task in these proceedings, as I see it, is to consider how and to what extent we can best preserve and advance that value within the present and prospective world political structure without excessive loss to other values in which many men place considerable store.

II

To be productive we must begin our inquiry by explicitly recognizing the lack of phasing between the development of the world company - a concept responding to modern needs - and the continued existence of an archaic political structure of nation states, mostly small or of only medium size, which is evolving only at glacier pace in response to new world requirements of scope and scale. This lack of phasing is responsible for most of the problems confronting the world company, which, in broad terms, can best be considered with respect to two sets of relationships.

The first concerns relations between the government of the country in which a world company is organized and the governments of the various host states in which it operates. For a variety of reasons - such as the desire to prevent evasion of its own laws or the wish to extend its own jurisdiction as far as possible - domiciliary governments frequently seek to control activities of world companies even though those activities take place outside their geographic boundaries.

Although the extraterritorial application of national laws - which sometimes embody unshared national prejudices - is inherently abrasive, bureaucracies are frequently obtuse about it. My own Government created a sense of outrage particularly in Ottawa when it tried - unwisely, I think - to restrict foreign subsidiaries of American companies in their dealings with Red China. Our Canadian friends understandably resented this - though, to be quite fair about it, they have, in their turn, not always shown maximum sensitivity in their treatment of American companies. Today the United States Government is again stretching the principle by requiring the repatriation of a substantial part of the monies that foreign subsidiaries of American companies earn in various parts of the world, thus creating anxiety among governments permitting free movement of funds that countries restricting the repatriation of earnings may benefit unjustly.

III

Much more serious problems surround the second type of relationship - that between a world corporation and the governments of the host states in which it does business. Traditional international good manners would require that the corporation

be accorded "national treatment," which means that it should be permitted to enjoy the same privileges, and be required to accept the same responsibilities, as any citizen of the host state. The Government of the United States is a party to forty-four Treaties of Friendship, Commerce and Navigation or similar treaties which incorporate this principle.

Abstractly stated, this is sound doctrine, yet sometimes, because it does not fully respond to reality, it is honored more in the breach than the observance. No words in a treaty can alter the fact that the absentee management of a world company will not view its problems within the same frame of reference as a host government. The concern of a corporate management is with the total operation of a wide-ranging enterprise, only part of whose activities take place in the host state. The responsibility of a local government, on the other hand, is for the health and progress of the national economy to which the world company frequently contributes only a very small share; in addition, it is subject to emotions of national pride, to pressures from local interests claiming special advantages, and - if it is the government of a newly independent state - to an almost pathological fear of foreign economic dominance that might lead to what is mystically referred to as neo-colonialism.

Obviously the world company creates quite different problems for the new, poor nations of the Southern Hemisphere than for the industrialized countries of the North. Since a world company is more likely to be the dominant element of economic power in a small nation than a large one, the prosperity of many less-developed countries is left heavily dependent on decisions made by managements of world companies located five or six thousand miles away. When - as is so often

the case - an extractive industry is involved, the problem is given an additional emotional overlay by the fact that the world company disposes of what is traditionally regarded as the national patrimony.

Problems of this kind have been brought into sharper relief as countries just emerging into industrialization have begun to make national development plans. Often one of the principal assumptions underpinning a four- or five-year plan is an estimate that a world company will do more of its business in the host country than the distant management, in fact, intends.

Because these problems are part of the uneasy context of North-South relations, they are confused by a wide range of tangential issues. For purposes of our discussion, therefore, we would probably be well advised to put prime emphasis on the less cluttered problems encountered and created by world companies in the industrialized nations of the Northern Hemisphere.

IV

Even here, the context tends to confuse the answers. The fact that, at least for the time-being, most world companies are domiciled in America is a significant political element that infects economic arrangements with national jealousies and resentments. In a world bemused by symbols, some otherwise sophisticated Europeans have been tempted by the cliché of "American economic imperialism." If, as I believe, the world company has a great potential for good as an instrument for efficiently utilizing resources, there need certainly be no apologies for the sensible and vigorous way American industry has organized itself to serve an expanding world

economy. What American entrepreneurs are doing, as I see it, is exactly what European industrialists should be doing if the conditions existed in Europe that would make this possible.

Hopefully these conditions are in the making. Next summer for the first time in history, goods will move with full freedom throughout six nations of Western Europe to serve the needs of 200 million people. Nor is this the end of the process, since, in spite of the counter winds of nationalism blowing with gale force from one European capital, I have no doubt that within a few months or a year the European Community will be expanded to include Great Britain and very likely several other important European trading nations.

Yet, great as is the achievement up to this point, it still falls far short of what is needed. I do not believe that European business will be able to hold its own under the conditions of the future unless an environment is created that will make Europe a seed bed for new world companies. Preoccupation with the so-called "technological gap" and concern at the so-called "American invasion" reflect little more than the fact that many American companies possess the size and resources necessary to play an efficient world role while most European enterprises do not.

Until Europe achieves greater political unity I doubt, however, that European business will be able to make adequate progress toward a more ample structure. It is deeply disappointing, for example, that, with the Treaty of Rome already ten years old, social, fiscal and legal complications still make mergers across national lines difficult, if not impossible. Yet until such international concentration does take

place and a modern structure of enterprise is created, few European companies will achieve the scope and resources needed to serve our modern world economy with full efficiency.

I would hope, therefore, that the lesson in M. Servan-Schreiber's recent book "Le Défi Américain" will be taken to heart and that the so-called "American invasion" will be regarded not as a threat but as an incentive to the achievement of a modern structure of European enterprise.

Such a development would be welcomed in the United States, where nothing could be healthier than a European counter invasion. If European companies - at the same time great world companies - were presently busy buying American corporations and establishing production sources in Detroit and Pittsburgh and Kalamazoo, it would be to everyone's advantage. It would mix more eggs in the political omelette, while the counter flow of European direct investment capital would help significantly in bringing the American balance of payments into equilibrium.

I believe, therefore, that the development of a modern structure of enterprise in Europe - which is probably not possible without greater political unity - is far the best way to ease the problems of the world company in the advanced nations.

To be sure some special difficulties would remain in certain geographic areas or industrial sectors. Resistance might still be encountered were world companies to dominate those types of industry psychologically associated with national pride - such as automobiles and computers. And in Japan, where a whole industrial economy is balanced precariously on a tiny capital base by the subtle operation of "administrative guidance," fears would probably persist that world companies under absentee management

might not show full sensitivity to all the unwritten rules.

V

To realize the full promise of the world company it is not enough for us to liberalize world trade (we have been making significant progress in that direction for the past thirty years), including the free movement of capital (here my own government has recently backslid). We will also need to find ways to assure peaceful co-existence between two overlapping circles of authority - corporate managements, and local host governments.

This problem should not, however, prove beyond the wit of man; the Roman church, as M. Jacques de Fouchier reminds us, developed a form of co-existence with nation states that lasted for centuries, and Professor Raymond Vernon has recalled also the overlapping sovereignties of the governments of Europe and the House of Rothschild.

I doubt, however, that we can gain much wisdom from those analogies. We are going to have to search for some new and different techniques to fit the world company into the existing political environment.

A limited amount can be accomplished, of course, by improved corporate diplomacy. Over the past few years many world companies have sought, by trying to establish themselves as useful citizens of host countries, to mitigate the prejudices and fears they might otherwise engender. Most of their thinking has been in terms of protective coloring. Should not the world company take local partners? Should it not list the shares of its subsidiaries on local exchanges, employ local managers, and try to behave as though its corporate children were national companies of host countries which only distantly acknowledged their absentee parents?

Ideas such as these have been adopted with varying degrees of success. Efforts to achieve a local identity should not be rejected out of hand, though clearly they are more suited to certain types of corporate activity than to others.

Yet, in many cases, the costs of seeking recognition as a local citizen can be excessive. The peculiar genius of the world company stems from its ability to view the world economy from a single point of vantage and to deploy resources without regard to national origin in response to a common set of economic standards. It is the disadvantage of local partners that they are, in a sense, enemies of such mobility, since their judgments are based on benefits to the local subsidiary rather than on the interests of the world enterprise as a whole. Put another way, the scope of their thinking is defined by the national economy rather than the world economy.

This fundamental difference in attitude is almost certain to produce conflicts over corporate policy affecting a wide spectrum of issues that can be reconciled only through an accommodation of interests at some cost to the full efficiency of the world company.

Conflicts, for example, are likely to occur with respect to dividend policy. A local partner may wish earnings distributed while the management of the world company may wish to plow them back - or vice versa. Or a local partner may wish particular facilities expanded, while the world company finds it more profitable to sell or abandon them. Finally, the management of a world company may well find itself wishing to serve the market of a neighboring country not by production in the host country but through subsidiaries located elsewhere.

VI

Since the device of local partners is almost certain, therefore, to hobble the ability of managements to gear their decisions freely to the world economy, its indiscriminate use should not be encouraged. Instead - rather than attempting to develop a whole congeries of national personalities for subsidiaries of the world company - it might be wiser to approach the problem centrally by internationalizing or denationalizing the parent.

Such a suggestion finds re-enforcement when one considers the problem on a philosophical level as a case study in the legitimacy of power. Where does one find a legitimate base for the power of corporate managements to make decisions that can profoundly affect the economic life of nations to whose governments they have only limited responsibility?

Ever since the publication, in the early 1930s, of Berle and Means' classic study of the divorcement of control from ownership of great industrial companies, Americans have puzzled over the problem of legitimacy in the domestic context. Whence do corporate managements (which are in practice frequently self-perpetuating) derive the right to make decisions affecting not only the inarticulate mass of shareholders but the economic welfare of whole communities and the pocketbooks of consumers?

This question is far from simple even in domestic terms; when translated to the level of world operations it acquires additional layers of complexity. Within our own national boundaries, an industrial corporation is kept under substantial regulation not only by state laws and regulatory agencies but by the Federal Government. For a

world company, however, there is no overriding political authority to oversee the totality of its operations nor - and this is even more important - is there any organic arrangement to prevent national governments from interfering with the fulfillment of its role in world commerce in the same way that the United States Constitution - enforced by the federal judiciary - limits the power of states to interfere with the fulfillment of the domestic company's role in interstate commerce.

Let me be quite clear. I am not proposing a federal governmental structure at the world level, or anything like it; I have spent too much of my life on the exposed steppes of diplomacy and international politics to have any faith in such ethereal designs. Yet, if we begin modestly, there is no reason why world companies might not be accorded some form of denationalized status by a multilateral treaty.

VII

The essence of the suggestion is that those artificial persons, which I have referred to as world companies, should become quite literally citizens of the world. What this implies is the establishment by treaty of something in the nature of an international companies law, administered by a body made up of representatives drawn from signatory countries, who would not only exercise normal domiciliary supervision but would also enforce the kinds of arrangements that are normally included in treaties of establishment.

Such an international companies law could set limits, for example, on the restrictions that signatory states might be permitted to impose on companies established under its sanction. The operative standard defining those limits would

be the freedom needed to preserve and protect the central principle of assuring the most efficient use of world resources.

In suggesting the possibility of a multilateral treaty of this kind, I would strongly urge against enmeshing it in the machinery of the United Nations or even, in the first instance, attempting to gain signatories outside the small circle of industrialized nations. Like the GATT it would be regarded primarily as a mechanism for creating a code of rules among the major trading nations, reserving the possibility that, over the years, it might provide a world charter as more and more of the less-developed countries adhered to its provisions.

Obviously such an international company would have a central base of operations. It would not, like Mohammed's coffin, be suspended in the air, since it is clearly necessary that there be a single profit center. And its operations in its home country would, of course, be subject to local law to the extent that the organic treaty did not contain overriding regulations.

I recognize, of course, that a company will not become effectively a citizen of the world merely by a legal laying on of hands. It requires something more than an international companies law to validate its passport; the enterprise must in fact become international. This means among other things that share ownership in the parent must be widely dispersed so that the company cannot be regarded as the exclusive instrument of a particular nation, which, in view of the underdeveloped state of most national capital markets even in economically advanced countries, is not likely to occur very soon. But, over the long pull, as, in more and more countries, savings are effectively mobilized for investment, companies should assume an increasingly

denationalized character, while we might, at the same time, expect a gradual internationalizing of Boards of Directors and parent company managements.

VIII

I offer these suggestions in tentative and speculative terms, recognizing that these are not the only means through which a solution may be sought. One can envisage an international treaty, for example, directed solely at resolving jurisdictional conflicts or limiting national restrictions on trade and investment. Yet an international companies act, as I see it, has intrinsic merits. It offers the best means I can think of to preserve for all society the great potential of the world corporation.

Nor is such a proposal, after all, far beyond the realm of present-day contemplation. It is merely an adaptation in a larger arena of what is likely to be created within the next few years in Europe: a common companies law for the European Economic Community together with a body of regulations to be administered by the European Economic Commission.

Conceived in these terms a world companies law could serve a vital economic purpose; yet at the same time its larger political implications should not be wholly ignored. Freeing world business from national interference through the creation of new world instrumentalities would inevitably, over time, point up the inadequacy of our political arrangements. At least in a small way it might thus serve to stimulate mankind to close the gap between the archaic political structure of the world and the visions of commerce that vault beyond confining national boundaries to exploit the full promise of the world economy.